



Civil Aviation Authority

Airports' economic regulation review for Q6

**CAA Mandate
for Constructive
Engagement
at Gatwick**

April 2012

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CAA Mandate

1. Introduction

Background

The CAA considers that there is a good case for seeking to enhance the role for airport/airline consultation in shaping and informing the outcome of the Q6 airports' review. The output of Constructive Engagement (CE) will be one of the key inputs to the CAA's determination of regulation at Gatwick after 2013. It is important that CE discussions focus on passenger interests (present and future) and this is the key prism through which outputs are based.

In its July 2011 consultation the CAA set out some operating principles for the Constructive Engagement process.¹

Following responses from stakeholders, the CAA has agreed with Gatwick Airport Limited (GAL) and airlines, that the formal CE process shall commence in April 2012.

The purpose of this document is to provide a mandate to GAL and its airline customers, in time for the start of the Q6 CE process. It lays out detailed guidance in relation to the required outputs and governance arrangements for CE. This document has been tailored specifically for Gatwick after consulting with the airport, ACC and airlines: it has also been approved by the Joint Steering Group. Since the CAA recognises that one size does not fit all it is developing a different mandate for each regulated airport within a common set of principles but with detailed arrangements according to the prevailing circumstances.

The relevant circumstances at Gatwick include:

- CAA's initial views on SMP and regulatory design² at the airport;
- airline and airport views about the needs of future passengers;
- the variety of business models at the airport;

The document also covers:

- CAA objectives for CE
- legal context for the review
- scope of airports activities under review
- strategic questions for discussion
- duties of the Regulator – division of responsibilities
- CAA expectations of participants' behaviour;
- CAA use of Constructive Engagement material
- consent to consult

The CAA will retain overall responsibility for economic regulation, which may include setting price controls, and for instigating the processes leading up to and informing the CAA's ultimate decision. In reaching its Q6 decision, the CAA will draw on evidence relating to a range of regulatory questions regarding airports' current and future performance.

Overall CAA expectations of the process

The CAA expects airports to establish a Constructive Engagement Working Group ("CEWG"), which will be convened with a fair representation of its airline customer base. The CEWG may be an existing consultative body at an airport such as the JSG at

¹Review of price and service quality regulation at Heathrow, Gatwick and Stansted airports: Setting the scene for Q6'
<http://www.caa.co.uk/docs/5/Q6SettingScene.pdf>

² The CAA will be providing its initial views on regulatory design at the airport in its April 2012 policy update.

Gatwick. GAL and airlines has already established a structure for informal CE which the CAA accepts can also be used for the formal process.

CEWG will make recommendations to JSG, which is the decision making body, with airline views being presented by the ACC.

The CAA expects the JSG to ratify a code of conduct for the CEWG, and for individual members of the group to abide by this code.

The CAA expects GAL to provide its customers with an initial Business Plan in April 2012.

The CAA expects the JSG to deliver to the CAA its agreed final report in December 2012 setting out both areas of agreement and disagreement for each main element of the price control, the impact or contribution to the priorities of the passenger, and incentive mechanisms such as for capital projects, service quality etc. to deliver these priorities.

The report should also draw out the range of airlines' respective views on:

- the airlines' strategic questions and priorities for the Q6 period and beyond
- airports' proposed plan for meeting users' needs over the Q6 period and beyond, in terms of service, service quality, capex, opex and price control. Users in this context should not just be airlines but also include passengers and cargo.

In addition the CAA expects to receive a revised Business Plan from GAL in January 2013 which has been well informed by CE but will be regarded by the CAA as a GAL document and separate from the output of CE.

The CAA expects the JSG and CEWG to work within the following timetable, to enable the CAA to complete its decision in time for the start of the Q6 period.

Fig 1.1 CAA's Q6 Timetable

April 2012	CAA policy update on structure and conduct of review and current views on the scope of the price control, the overall price control's architecture, regulatory finance and cost of capital
September 2012	Update report to CAA on progress of airports-airlines Constructive Engagement; CAA initial consultancy studies
December 2012	JSG report from Constructive Engagement submitted to CAA
April 2013	CAA publishes initial economic regulation proposals for consultation
September 2013	Hearings with parties
September 2013	CAA issues final proposals
January 2014	CAA Q6 decision
1 April 2014	Q6 ECONOMIC REGULATION COMES INTO EFFECT

Source CAA

2. CAA Objectives for CE

The CAA's objectives for Constructive Engagement are:

<p>To enable the CAA to set price controls or other forms of regulation on airports for the Q6 period which are as well informed as possible about users' future requirements for service, capacity, resilience and cost efficiency.</p>	<p>To enable airline customers to engage with the airport on the development of the plans for the airport in Q6.</p>
<p>To enable airports to conduct a comprehensive and structured engagement with its airline customers to inform the development of its Q6 business plan before submission to the CAA.</p>	<p>To provide a forum in which airports and its airline customers seek to reach agreement on aspects of the Q6 plans and, to the extent that this is not possible to provide the CAA with a clear view of the positions of each party.</p>

Legal and competition law basis for discussion

The CAA is mandating the Constructive Engagement process for airports' Q6 price control review, in the context of its statutory duties. The CAA considers that, by providing high quality information at a formative stage of the review, this process would be likely to assist the CAA establish airports' licence conditions through the Q6 review in the manner best calculated to achieve its statutory duties. At this time the duties are those set out in the Airports Act 1986 which of course do differ from the duties contained in the new Aviation Bill. Although this is not an ideal situation the CAA believes, given the nature of CE discussions, that it is still beneficial for them to take place.

All parties to the Constructive Engagement should be aware of their responsibilities to

operate within the bounds of competition law. The CAA does not envisage that competition law requirements would hinder the flow of information between airport and airline participants that is necessary for Constructive Engagement, however this is ultimately the responsibility of each of the parties. In considering the results of Constructive Engagement, the CAA will be mindful of the interests of all users of regulated services at an airport, and not just the interests of those airlines which participated in or were represented in Constructive Engagement.

In its July 2011 consultation document, the CAA set out six operating principles that it considered should form the basic framework for the formal Constructive Engagement process. The parties have suggested an additional "efficiency" principle that is included in this mandate.

ACCOUNTABILITY	<ul style="list-style-type: none"> • A clear and agreed governance framework setting out the expected accountabilities. • This includes the CAA giving a clear, upfront mandate to the parties.
TRANSPARENCY	<ul style="list-style-type: none"> • Information provided for CE should be relevant and timely. • The scope of CE should be widened to include discussion on all items relevant to calculating a regulatory price cap, including operational expenditure and commercial revenues.
COLLABORATION	<ul style="list-style-type: none"> • All parties should participate constructively and in good faith. Airlines should be involved fully in the development of plans for the airport that form the basis of Q6 submissions. • CE should not be seen as a zero-sum game and should allow opportunities for outcomes such as “gain sharing” between airports and airlines.
“NO SURPRISES”	<ul style="list-style-type: none"> • Trust is undermined if either side suspects the other is simply playing games to exploit a regulatory process. • To avoid airlines raising concerns over airports exploiting information asymmetry, the airport should operate on the basis of “no surprises” and should agree when they will provide updates to key data and information. • All parties should work on the presumption that data submitted to the CAA after formal deadlines will not generally be taken into account, especially if it could have been generated at an earlier date and has not been shared with other parties.
DISPUTE RESOLUTION	<ul style="list-style-type: none"> • The parties should agree clear and efficient dispute resolution procedures before the start of CE. • The CAA does not wish to replace or interfere with the existing dispute resolution mechanisms at each airport. • The parties may also engage an independent facilitator and the CAA is happy to work with such a person.
ROLE OF THE CAA	<ul style="list-style-type: none"> • Although CE should not be regulator-led, where appropriate, the CAA will play a more active role on a step-in / step-out basis than was the case for Q5. • This might particularly be the case at early stages, where parties do not abode by the agreed operating principles. • It may also have a role in inputting its views and evidence on passenger priorities and in clarifying how the outputs from CE workstreams could be used in the subsequent regulatory process.
EFFICIENCY	<ul style="list-style-type: none"> • The CE process and requirements need to be proportionate to the issues under consideration for the airport and the participating airlines. CE mechanisms should therefore be efficient and inclusive.

3. CAA commentary on the process framework

The CAA expects the process to be conducted within the following framework:

Stage 1 Mandate from the CAA March 2012

This CAA Mandate is aimed at establishing the formal Constructive Engagement process, including, among other elements:

- a list of questions that it requested airports and its customers to discuss
- the scope of airports' activities under review, to ensure that the Constructive Engagement discussion remains relevant to the CAA's final conclusions
- a timetable with deadlines for the delivery of a set of Constructive Engagement feedback results
- the format and expected content for the feedback of results of Constructive Engagement
- professional conduct of meetings, including the preparation and timing of material for meetings, the minuting of comments and the subsequent reporting of opinions back to the CAA.
- A policy statement on how the CAA would propose to use any results derived through the Constructive Engagement process

Stage 2 Establishing the Constructive Engagement Working Group March 2012

The CAA expects GAL and its customers to form a process for fulfilling this mandate and to notify the CAA. The Constructive Engagement Working Group (CEWG) should consist of

senior commercial, financial, operational and regulatory airline and airline trade body representatives, JSG representatives would have the ability to commit their respective organisations to conclusions derived through the process on the basis of recommendations from the CEWG. Where there are already existing structures in place such as the JSG and informal CE working groups at Gatwick (as shown in the diagram on page 4) the airport may continue to use these for formal CE.

Structure of informal CE at Gatwick

The CAA considers that it would be advantageous for the CEWG to be populated with a core of individuals, who can both represent the industry and can provide comprehensive input in the review of key strategic issues. It is important that the different business models at an airport are adequately represented.

If possible, the CEWG should be co-chaired by airports and a representative of airlines. However, if there is no airline agreement to a co-chair representative, the CAA considers that it would be possible to initiate work within the process on the basis of a single airports chair, as long as such arrangements are workable, conducive to the delivery of robust and timely outputs useful to the CAA's price review, and be able to sustain the confidence of all parties. It would be open to airlines subsequently to agree a co-chair or to agree with airports on an independent chair.

In practice, the role of the CEWG will be to make recommendations to JSG on:

- the issues and sub-issues to be discussed
- an approach to resolving individual issues/sub-issues

- a timetable for milestones for CE, which fit within the CAA's wider timetable for concluding the Q6 review
- taking into account the fact that some conclusions from airports-airlines consultation would need to be made sequentially
- a set of feedback results and meeting minutes to the CAA, within the agreed timeframe.

The CAA envisages that the JSG would establish a plan agreed between airports and airline representatives, consistent with the guidelines in the CAA's mandate, for the conduct of the Constructive Engagement, in order to deliver the work programme described above. Gatwick will provide an initial Business Plan to airlines by 1 April 2012. This Plan would include an indicative price profile, based on airports' view of Q6 projections (and beyond), which would allow customers to see the implications of potential variations in customer requirements.

The CAA considers that such a Constructive Engagement process would be more likely to deliver productive outputs if it is as fully informed as possible of all relevant projections and supporting evidence. If necessary the CAA will use its own legal powers to obtain information.

The CAA would for its part intend to inform Constructive Engagement in a number of ways:

- definite workstreams will include setting out indicative views on the scope of the price control, the overall price control 'architecture', and regulatory finance in April 2012;
- potential workstreams may include scrutinising airports' cost efficiency,

programme management and business risks

The CAA will provide guidance on the scope and timing of CAA led studies in its April 2012 Policy Update.

In parallel the CAA will continue its related work on the licence and Airports Performance Facilitation Group.

Stage 3

Customer engagement (multilateral)

Without prejudice to the form of regulation, for the purposes of CE and the required outputs, the discussions should assume a RAB based price control. Given the high importance attached by airlines to value for money in Q6 the CE process should ensure there is a periodic (e.g. every 2 months) evaluation of the proposals and options against the overall price.

To manage the risk that discussions may not progress within the required timetable, the CAA considers that it would be helpful for it to be able to assess progress against key milestones established within the project plan at predefined times. To that end, the JSG should report to the CAA against the milestones established in the project plan on a monthly basis. The CAA is ready to adopt a step-in/step out function in order to assist the parties to resolve any process and governance disputes, but fully encourages existing GAL dispute resolution procedures (if any) to be used in the first instance.

The CAA will also issue regular reports to the JSG on the progress of the regulator-led work, so that this work can be taken into account or integrated with the work led by JSG.

The CAA would envisage reviewing progress against the predefined milestones in September 2012, from which it would draw conclusions on the likelihood of progression of

the consultation through each of the issues discussed. Where it appears to the CAA that there is, or likely to be, a disagreement between the parties on an important issue or element of the price control, the CAA will conduct its own analysis including consultancy studies.

The CAA considers that consensus on major issues would be welcomed, but is unlikely to occur in every instance, and that Constructive Engagement has the potential to yield useful contributions to the price control review even in the absence of consensus. Where possible, airports should take into account the full range of feedback results of the engagement in producing its revised Business Plan. The CAA itself will fully consider majority and minority views of customers in forming its own regulatory proposals and price control decisions.

The CAA also considers that, in assessing overall value to passengers, airports and those airlines engaged in the consultation process should take into account the interests, where known, of those users who have chosen not to participate in the Constructive Engagement process. The involvement of airline trade bodies, which speak for significant numbers of airlines, and smaller airlines acting in a wider representative capacity, could be an important channel for ensuring fair representation. It should also be noted that the latter stages of the price control entail CAA-led consultation on its own comprehensive regulatory proposals, which should allow all interested parties' views to be taken into account within the price review.

The CAA considers that any customer should have the right to withdraw from the CE process. However, once committed, the CAA considers that, by withdrawing, a customer should accept that it would diminish its ability to influence discussions, and thus any output of CE may not be aligned with its interests. (All

airlines, regardless of their participation or otherwise in Constructive Engagement, and other interested parties, would retain their rights to fair and equal consultation on the CAA's regulatory proposals, informed by the outcome of Constructive Engagement.)

The CAA further considers that either party in the Constructive Engagement process should be able to end the discussion on any particular issue. The CAA considers that in the extreme case, either airports or a majority of customers should recognise those issues on which Constructive Engagement may be approaching stalemate, and end the dialogue. At this point, the differing views of participants would be recorded and reported to the CAA, in order for the CAA to work and conclude on the issue.

Finally, the CAA considers that airlines should have the right to engage with the process, after the discussions have begun, but should not expect issues already discussed to be reopened. It is accepted that in the course of CE new evidence or circumstances may dictate that issues already discussed are reopened.

Stage 4

Customer engagement (bilateral)

The CAA expects CE to focus on the building blocks for a multilateral regulatory settlement. The CAA does not require or expect the airlines and airport to reach a negotiated settlement, however, this would be welcome and the parties should work on the assumption of seeking to agree as much as possible. The CAA will need to use the outputs of this process to inform its decisions for future regulation and price controls. Alongside this process, it is open to airlines and the airport to hold bilateral discussions of a commercial nature. The CAA sees merit in parties exploring the possibility of bilateral deals, although it does not expect to approve

individual deals as it cannot fetter its discretion as an enforcement body. The parties need to ensure the agreements are compliant with relevant regulations such as the Airport Charges Directive, general competition law and airport licensing conditions.

Stage 5
Key Deliverable of Constructive Engagement
December 2012

JSG should provide the CAA with a final report in December 2012 recording all points of agreement and disagreement in relation to each element of the price control. The CAA would envisage that the submissions would include supporting context, reasons and evidence for each of the inputs to the CAA's setting of the price control for Q6 providing full visibility of the range of views. In addition to the regulatory building blocks, other issues including the extension beyond Q6, and the indicative price paths for subsequent quinquennium should be included in the final CE report.

The CAA would further envisage that airports would review the April 2012 Business Plan, with a view to adjusting it, given discussion with customers on key strategic issues. In so doing, airports should lend weight to planning outcomes which would be likely to deliver the greatest overall value to users, taking account of safety, economic and longer term capacity considerations. The final Business Plan should be delivered to the CAA in January 2013. Although it will be an important input in the regulatory process, the Business Plan is an airport plan and will not be regarded by the CAA as an output of CE.

Stage 6
CAA-led consultation on regulatory proposals for Q6 economic regulation
January-July 2013

The CAA would assess the outputs from Constructive Engagement, and conduct its own scrutiny analysis. It would conclude on the appropriate use of the input from the consultation process, in light of its statutory duties, on each of the issues mandated to the process.

Subject to the CAA's consideration of the extent to which the results from any Constructive Engagement reflected the interests of passengers, cargo shippers and airlines not directly represented in such consultation, the CAA would be minded to adopt agreed outcomes and to incorporate such into its own proposals for Q6 economic regulation, including any price controls. The CAA would also be minded to place weight on partial agreements, for example where airports and airlines may have converged on proposals for investment, capacity and service quality, while remaining not in full agreement on the projected costs of delivering such over Q6. In such cases, the CAA would form its own judgment and set out its own proposals, for consultation, on the overall combination of projected outputs, costs and regulated revenues which it considered best met its statutory duties.

The CAA would envisage issuing its initial proposals for Q6, informed by Constructive Engagement, in April 2013, for around two months consultation. To do so, the CAA would aim to draw on the then latest airport Business Plan and Capital Investment Plan. These proposals will also take into account the CAA's latest view of SMP and regulatory design.

The CAA will hold regulatory hearings in September 2013. The CAA would then issue its final proposals for the statutory three months

consultation in late September 2013, before issuing its Q6 decision in January 2014.

In the event that, in the CAA's view, there were material gaps in the evidence base emerging from the Constructive Engagement process, and/or substantial divergences of view between airports and its customers which required further investigation, then the CAA would reserve the right to defer issuing its initial proposals pending further scrutiny by the regulator. The timetable would allow for such further analysis to be conducted in spring/early summer of 2013. It would also allow airports and airlines a period of time to reflect on the

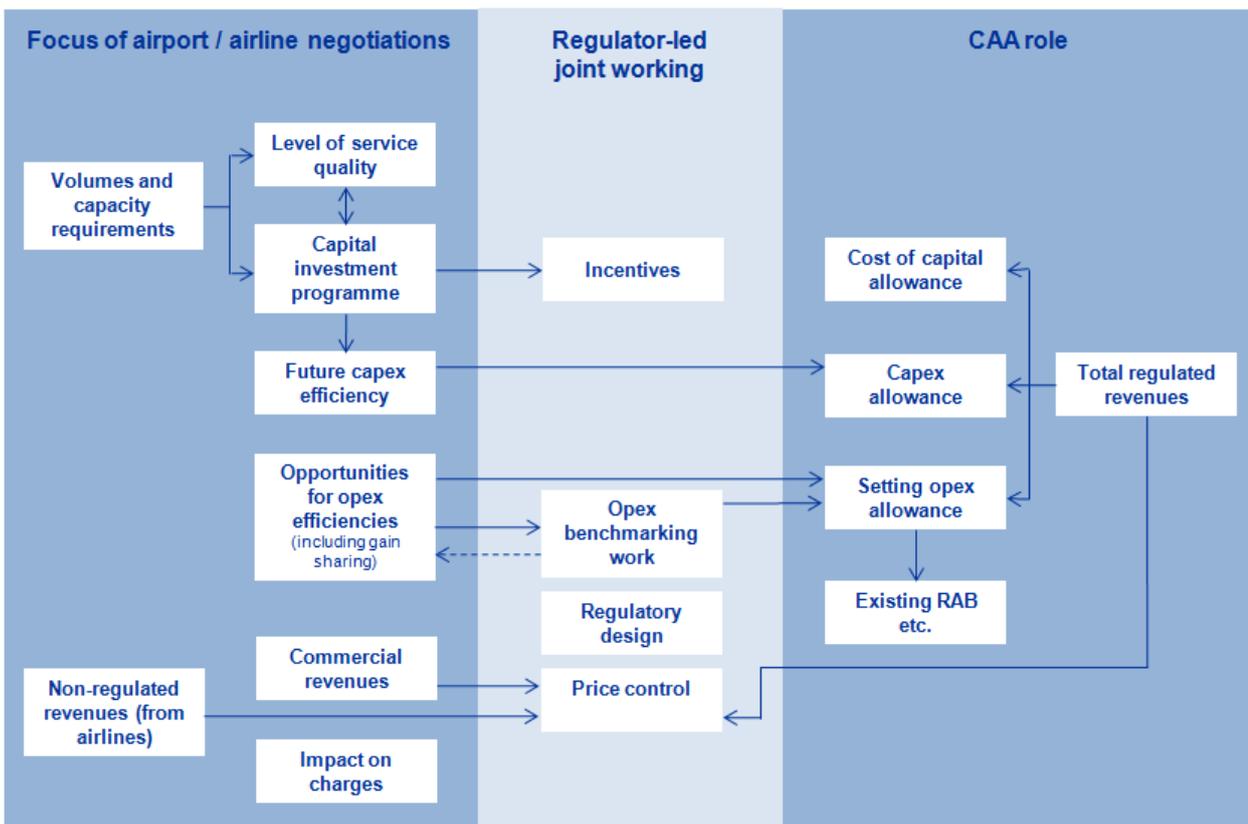
outcomes of the Constructive Engagement process, and to bring their respective views and evidence to bear on the CAA's consideration of the outstanding issues. However the CAA will take action to mitigate any such risk by commencing its own studies at an early stage where it considers this is necessary, including during the CE process itself. The CAA may also provide feedback to CE participants in early 2013 and/or ask specific questions on the basis of the 2012 submissions where it felt there was scope to make further progress.

4. Scope of airport activities under review

The CAA consulted with stakeholders in July 2011, on the scope of the price control. There is broad acceptance that the scope of CE should be wider than in Q5, and include areas such as operating costs and commercial revenues. The CAA considers that all elements of the price control, assuming a RAB based control, should be

within scope of CE which may extend beyond Q6 at least in respect of the price path. In addition to the regulatory building blocks it may be relevant to include other issues such as vision, service proposition, masterplan and major capex or opex projects within the scope of the Constructive Engagement discussion.

Fig 4.1 Illustrative CE process with a RAB³-based approach



Source CAA

³ There is no presumption implied that the CAA will necessarily adopt a RAB-based approach at Gatwick in Q6.

Protection should be given to confidential information shared during the process. Non-disclosure agreements should be completed, which would ensure the confidentiality of the airport and the airlines. Information should be supplied in a manner that enables airlines to understand the impact of their choices on final charges. For example, there should be an integrated debate about the price impact and trade-offs of different options being brought to a central point for upfront evaluation. This enables airports and airlines to have a holistic discussion of capital projects for Q6. Airlines should also be able to understand the sensitivity of prices to changes to building block assumptions. They should also be able to understand clearly the benefits and costs associated with the choices for capital projects. Although airports and airlines do not expect to agree on the value of the airports' cost of capital, the airport should still make assumptions and ranges clear to airlines

during discussions adopting a symmetrical approach to sensitivity of the cost of capital.

The CAA sees merit in airports and airlines agreeing joint consultancy studies where these are needed, or at least sharing the terms of reference in an open and transparent way. The CAA will also consider whether to undertake its own consultancy studies and will in general invite comments on the terms of reference.

Where there is airport / airline agreement to a joint consultancy study and agreement with the conclusions, the CAA will not duplicate the same work unless it considers there are strong reasons to do so.

Parties may wish to engage in wider issues e.g. forms of regulation as part of the CE process.

5. Strategic questions for discussion

The core of this approach would entail airports consulting with customers between April and December 2012, on key price control strategic issues. At a minimum the CAA would expect airports to consult with customers on the following issues:

- demand (traffic) possibly extending beyond Q6
- customer requirements for capacity, service quality and operational resilience with clarity around passenger priorities
- major capital programmes aimed at meeting current and future customer requirements with a distinction between

well understood core and less defined discretionary capex

- customer priorities where options exist
- major opex projects and operating costs
- Impact of projects on airlines operating costs
- incentive regimes for capex e.g triggers, opex and service quality
- outlook for Commercial revenues

Within these categories, the CAA would expect the following strategic questions to be addressed by airports and customers:

Demand (traffic)	
1)	What is the appropriate traffic forecast (high, low and base cases), on a financial year annual basis, between 2014 and 2019.
2)	What are the patterns of traffic and shifts in these patterns projected between 2014 and 2019, and what implications might these have for airports' delivery of capacity and service levels?

User requirements	
3)	What is the user requirement for service delivery priorities during Q6? (a) Service quality; (b) Operational contingency?
4)	What is the user requirement for service performance measures and target values for Q6 metrics?
5)	What are passenger priorities where the need of existing and future passengers may need to be traded off against each other during Q6?

Major airports programmes	
6)	What is the appropriate GAL capital programme during Q6?
7)	What is the response to GAL's proposal for risk and contingency built into the capital programme for Q6?

Customer priorities

8)	What are the user and passenger priorities, where options exist in the areas of service, future service delivery, given cost trade offs (e.g. service requirement versus cost)?
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The CAA does not aim to restrict the level of discussion within Constructive Engagement meetings. The list of strategic questions should therefore be seen as a minimum requirement for discussions. The CAA would

welcome feedback on other questions discussed during the consultation. It is the responsibility of the CEWG to set agendas for meetings, which reflect the agendas requested and agreed by both airports and customers.

6. Duties of the Regulator – Division of responsibilities

The CAA remains the overall sponsor of the economic regulation / price control review within which the Constructive Engagement process sits. Its involvement would be:

- to initiate the proposed Constructive Engagement process between airports and its airline customers, with the objective of better informing the CAA's own regulatory decision-making in 2013 on the price control/economic regulation to be set then for airports in the Q6 period;
- to issue a mandate to airports and its airline customers;
- to request that airports initiate discussions with airline representatives regarding the appointment of joint chairs (or a mutually agreeable independent chair) of the Constructive Engagement Working Group. The CAA would expect to see agreed arrangements put in place as soon as possible, as an essential precursor to the Constructive Engagement approach proceeding. If it appears to the CAA that inadequate progress has been made in this area by June 2012, then the CAA would have to reconsider whether the basis for proceeding with the Constructive Engagement approach is likely to meet its objectives and the options for proceeding with a traditional regulator led approach to the Q6 review;
- to request that airports develop and then reach agreement with its customers by the end of April on a code of conduct for the Constructive Engagement Working Group: this should include practical ways of working consistent with the resources available on the airline side whilst ensuring that the necessary ground is covered;
- to ensure that the CAA is adequately informed of the progress and substance of discussions between airports and airlines (not least for purposes of taking back the

reins should that be necessary), and has access to the CE website;

- to enable the CAA to take a fully-informed view of the progress of and prospects for Constructive Engagement, the CAA would conduct one 'mid-term' review in September 2012, at which it would seek a written report from the co-chairs as to progress and prospects. This approach balances the need to give the consultation adequate time to make progress while keeping open the possibility of the Constructive Engagement issues reverting to the CAA should it not do so; and
- to enable any party (including those not involved directly in the CEWG exercise) to raise any concerns about the conduct of the Constructive Engagement process at any time, the CAA will maintain an 'open door' policy with respect to the views of the parties on this issue. The CAA will decide how best to respond to any issues raised in light of the specific concerns and the context of the Constructive Engagement process at the time.

In addition during CE the CAA expects to facilitate a stream of analytical work on key issues of passenger priorities, business risk and efficiency. This regulator scrutiny could include:

- benchmarking of airports against other UK and European airports, taking account of relative comparability, including the differing degrees of complexity and traffic volume;
- efficiency of airports support functions, potentially going wider than the scrutiny conducted by the CAA in the Q5 review;
- cost effectiveness of airports' employment arrangements, including evidence on wages, pensions, employment benefits,

training, industrial relations, and productive time;

- assessment of airports' ability to deliver its proposed capital programme in a cost effective manner, taking account of risks, costs and impact on delivery of benefits to users; and
- evidence and intelligence on passenger interests into the CE process and that it develops outcomes through the prism of passenger priorities. Both airport and airlines are undertaking much more passenger research than during Q5. However, the CAA is keen to avoid "survey wars" and that it would be desirable, albeit difficult, for the parties to work together on

some high level evidence based key passenger priorities for Gatwick than can shape the agenda.

This does not prevent the parties including these issues within CE as illustrated by diagram 4.1.

The results of these analyses (if completed during CE) would then be shared with the CEWG to enable customers to reflect on and, if necessary, revise their initial views and preferences. Where feasible, and consistent with the CAA conducting a thorough and rigorous scrutiny, the CAA would aim to share these outputs at an earlier stage of the Constructive Engagement phase, as and when they become available.

7. CAA expectations of participants' behaviour

The CAA expects GAL to:

- *Initial overview:* provide airlines at the outset of discussions, with an overview of the airport's business and performance over the Q6 period, in order to allow airlines to become familiar with the context of the price control review;
- *Baseline Business Plan:* provide airlines in April 2012 with an initial Business Plan, which highlights its proposed forecasts for the Q6 period, in the following areas:
 - Passenger traffic
 - Operating costs (both ongoing and exceptional cost items), highlighting the trajectory of efficiencies possible in each of the years of Q6
 - Capital investment (both the scope of activities proposed and the proposed cost)
 - Commercial and non-aeronautical revenues
 - Forecast of regulatory depreciation on the regulatory asset base
 - Indicative price profiles⁴, highlighting the value of the average price change across Q6;
- *Further background information:* provide information behind key assumptions and how these translate into an indicative price profile;
- *Co-chair:* provide the CEWG with a co-chair, who will work alongside the customer co-chair;
- *Meeting hosting:* host the meetings and provide the CEWG with meeting venues, at its expense;

- *Website:* communicate material relevant to CEWG meetings on a controlled website, that can be accessed only by airlines engaged in the process; and
- *Openness and Transparency:* act in a way that is in keeping with the aims of an open and transparent process, given necessary confidentiality, respecting views expressed in meetings.

The CAA expects airlines to:

- *Engagement:* engage with airports in the process including response to the GAL Business Plan. The response could take a variety of forms including the airlines' or airline community's own proposals for Q6. The CAA believes that the benefits of Constructive Engagement are most likely to be realised if airlines:
- *Representative:* engage in the process in numbers sufficient to represent airports' customer base;
- *Senior level input:* are represented by senior staff members, who both have the knowledge (i.e. operational, financial, regulatory etc) and seniority to input practically to discussions and to provide firm positions, which will be supported by the respective airline later in the process;
- *Co-chair:* provide the CEWG with a co-chair, who will work alongside the airports' co-chair;
- *Confidentiality:* maintain the confidentiality of material shared within the process, to prevent communication of material beyond the airlines and named trade body representatives engaged in the process; and to control internal access to material to relevant staff members who are either engaged directly in CEWG meetings or are part of the governance system for

⁴ The indicative price profiles should assume the Q5 cost of capital. Any sensitivity around the Q5 cost of capital should be symmetrical.

approving decisions on relevant matters;
and

- *Openness and transparency:* act in a way that is in keeping with the aims of an open and transparent process, given necessary confidentiality, respecting views expressed in meetings.

The CAA will review progress from Constructive Engagement in Summer 2012 and will decide whether its expectations have been met by the parties. If there is serious deficiency on any of the expectations, then the CAA may decide to end Constructive Engagement and revert to a traditional regulator led process.

The CAA expects both airports and airlines to:

- *CEWG Plan agreement:* agree a plan and code of conduct for proceeding through the Constructive Engagement process;
- *Minutes:* provide the CAA with minutes from each Constructive Engagement meeting, detailing areas of agreement and disagreement, citing majority and minority views, agreed with attendees from the meeting;
- *Brief CAA:* meet with CAA at least monthly to discuss Constructive Engagement and to provide the CAA with a verbal update of both the nature of the discussion and progress (or lack of) achieved; and
- *Respect the process:* conduct all Constructive Engagement policy discussions within the CEWG framework and to report all Constructive Engagement policy offline conversations to the working group, to ensure that each party in the process has an opportunity to contribute equally to the consultation.

8. CAA use of Constructive Engagement material

The Constructive Engagement process should deliver the following material:

- minutes from Constructive Engagement meetings;
- an interim report in September 2012;
- a final report in December 2012; and
- an airport revised Business Plan in January 2013.

The CAA will treat minutes from the meetings as input into its wider consultation for the Q6 review. The CAA will publish, on its website, the redacted minutes from the process in 2012, at the end of the series of meetings.

At any stage, the CAA would welcome written submissions from customers and/or airports. However, respondents should be aware that the CAA will not be considering comments ahead of the start of its review stages in 2013. Further written submissions will be published by the CAA at the end of the series of Constructive Engagement meetings.

The CAA will use the final output of CE as a key input for its 2013 review activity.

Subject to the CAA's consideration of the extent to which the results from any Constructive Engagement reflected the interests of passengers, the CAA would be minded to adopt agreed outcomes and to incorporate such into its own proposals for Q6 price controls. The CAA would also be minded to place weight on partial agreements, for example where airports and airlines may have converged on proposals for investment, capacity and service quality, while remaining not in full agreement on the projected costs of delivering such outputs over Q6. In such cases, the CAA would form its own judgment and set out its own proposals, for consultation, on the overall combination of projected outputs, costs and regulated revenues which it considered best met its statutory duties.

9. Consent to consult

CAA endorses the establishment and operation of the CEWG, based on the terms of the agreement set out in this document, and with the objective of providing high quality

information to the CAA at a formative stage of the Q6 price control review of airports, to assist the CAA in the conduct of its statutory duties

